BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF NATURAL GAS EXPANSION SERVICE OFFERINGS (FILED DECEMBER 20, 2017)	)))))	PSC DOCKET NO. 17-1224

ORDER NO. 9246

I. PROCEDURAL HISTORY

1. On November 5, 2013, the Delaware Public Service Commission (the "Commission") entered Order No. 8479 in Docket No. 12-292 approving a settlement that established Infrastructure Expansion Service ("IES") rates for a portion of Chesapeake Utilities Corporation's ("Chesapeake" or the "Applicant") service territory in southeastern Sussex County, designated as an Expansion Area.[1] As approved by the Commission in Order No. 8479, the IES rates consist of an additional charge, added to and collected as part of Chesapeake's monthly customer charge, applicable to all new residential and small commercial customers in the Expansion Area.

2. On December 20, 2017, Chesapeake filed with the Commission an application (the "Application"), pursuant to 26 *Del. C.* §§201, 301, and 304, seeking approval to apply the approved IES rates throughout its service territory when necessary for economic expansion and requested by the customer to be initially served in lieu of an upfront contribution in aid of construction ("CIAC") or advance.

---

[1] Chesapeake's Expansion Area is defined as approved by the Commission in Order No. 8479 (Nov. 5, 2013), at Attachment A (the parties' Proposed Settlement Agreement), Paragraph 12 and Exhibit C.

3. The Delaware Division of the Public Advocate ("DPA") filed its Statutory Notice of Intervention on December 21, 2017.

4. On February 1, 2018, the Commission entered Order No. 9171 pursuant to its authority under 26 *Del. C.* §306(a)(1) and suspended Chesapeake's application pending completion of evidentiary hearings into the justness and reasonableness of applying IES rates across Chesapeake's entire service territory.

5. In addition, Order No. 9171 designated Mark Lawrence as the Hearing Examiner for this proceeding pursuant to 26 *Del. C.* §502 and 29 *Del. C.* ch. 101. The Commission also ordered that it may rescind the designation of a Hearing Examiner and consider the matter after a duly noticed evidentiary hearing at a regularly-scheduled Commission meeting if no petitions to intervene, material objections or written comments raising significant issues were received.

6. Chesapeake published notice of the filing of the Application in *The News Journal* and the *Delaware State News* on February 6, 2018. (Hearing Exhibit 1).

7. On June 5, 2018, the Commission entered Order No. 9228 modifying the designation of the Hearing Examiner. Order No. 9228 limited the Hearing Examiner's scope of authority to: (1) considering out of time petitions to intervene; (2) considering admission of counsel *pro hac vice*; and (3) presiding at duly noticed public comment sessions. Order No. 9228 further stated that the Commission would consider whether or not to approve a Settlement Agreement reached by the parties after a

duly noticed evidentiary hearing at a future, regularly-scheduled Commission meeting.

8. Duly-noticed public comment sessions were held on June 19 and 21, 2018. (Hearing Exhibit 1). No members of the public attended the public comment sessions or submitted written comments to the Commission.

9. To date, the Commission has not received any petitions to intervene, material objections, or written submissions raising significant issues from any person or entity. The Applicant, DPA and Public Service Commission Staff ("Staff") are, therefore, the only parties to the proceedings in this docket.

II. PRE-HEARING TESTIMONY

10. With the Application (Hearing Exhibit 2), Chesapeake submitted written direct testimony of its Director of Energy Services, Shane Breakie, and proposed tariff sheets that would allow Chesapeake to utilize the IES rates approved by the Commission in Order No. 8479 throughout its service territory.

11. Mr. Breakie summarized the history of Chesapeake's IES rates and their application within Chesapeake's Expansion Area. Specifically, Mr. Breakie testified that implementation of IES rates has allowed Chesapeake to make substantial capital investments in the Expansion Area that would not have been permitted under Chesapeake's approved tariff provisions and line extension policies. He testified that Chesapeake's total investments in the Expansion Area now exceed $11 million and include the installation of nearly 55 miles of distribution main. He indicated that, as a result of these investments, Chesapeake has added

more than 1,500 customers within the Expansion Area as of December 31, 2016. According to Mr. Breakie, these new customers are experiencing fuel cost savings of approximately 30% relative to comparable energy sources.

12. Mr. Breakie also explained the reasons underlying Chesapeake's Application for approval to apply IES rates in areas of its service territory outside of its Commission-approved Expansion Area. In particular, Mr. Breakie stated that there is substantial consumer and developer demand for natural gas throughout Chesapeake's service territory. For projects outside of its Expansion Area that are not economic under Chesapeake's approved tariffs and line extension policies, however, the amount of the CIAC or upfront advance required to make the project economic often exceeds what the potential customer is willing to pay. Mr. Breakie testified that Chesapeake's experience in its Expansion Area has demonstrated that many customers prefer paying the IES rates in lieu of a CIAC or advance. Further, according to Mr. Breakie, Chesapeake's capital costs to extend service are similar throughout its service territory and, therefore, Chesapeake believes there are customers outside of its Expansion Area that can be served under IES rates who would voluntarily agree to pay the higher rate in order to receive natural gas service.

13. On May 2, 2018, the DPA filed public and confidential versions of written direct testimony of its expert witness, Glenn A. Watkins. (Hearing Exhibits 3 and 4). Mr. Watkins' testimony addressed general policy considerations, the history of Chesapeake's IES rates, his review

of Chesapeake's application, and his recommended modifications to Chesapeake's proposal. Specifically, Mr. Watkins testified that natural gas service in Delaware has historically been constrained because the capital costs associated with extending distribution mains has exceeded expected revenue that will be obtained from the added new customers. In such circumstances, the resulting revenue shortfall requires an upfront CIAC that potential new customers are often unwilling or unable to pay. Mr. Watkins further testified that he and the DPA support ratemaking methods that promote the expansion of natural gas to unserved and underserved areas of Chesapeake's service territory, and that Chesapeake's IES rates appear to have been successful and beneficial both to the Applicant and to its ratepayers overall.

14. Based on his review of Chesapeake's Application, Mr. Watkins testified that the Commission should support the concept of expanding the IES surcharge program to include Chesapeake's entire service territory. Mr. Watkins, however, also recommended modifications to Chesapeake's proposal that he believed would reduce the risks to Chesapeake's existing ratepayers. Mr. Watkins' recommendations, and the rationale for the same, are set forth on pages 12-20 of his testimony. (Hearing Exhibits 3 and 4).

15. Staff filed public and confidential versions of written direct testimony of its expert witness, Dwight D. Etheridge, on May 2, 2018. (Hearing Exhibits 5 and 6). Similar to Mr. Watkins, Mr. Etheridge reviewed Chesapeake's Application and the history of the IES program,

and made recommendations to mitigate certain risks to Chesapeake's existing ratepayers he believed existed.

16. Mr. Etheridge testified that he also considered Chesapeake's Expansion Area program to be a success, both from a public policy perspective and in terms of the Applicant's overall business. Mr. Etheridge also testified, however, that expansion projects have the potential to place "upward pressure" on Chesapeake's revenue requirement in base rate proceedings, particularly if customer projections used by Chesapeake in its financial models exceed actual results. Mr. Etheridge, therefore, recommended the adoption of risk mitigation measures that would protect Chesapeake's existing customers from such "upward pressure" in the event individual projects or Chesapeake's aggregate portfolio of expansion projects fail to earn a threshold rate of return. Mr. Etheridge's recommendations, and the rationale for the same, are set forth on pages 26-32 of his testimony. (Hearing Exhibits 3 and 4). Mr. Etheridge stated that if the Commission adopts the recommended risk mitigation provisions, Staff supports Chesapeake's application to apply IES rates throughout its entire service territory.

III. PROPOSED SETTLEMENT

17. After Chesapeake reviewed the expert witness testimony submitted on behalf of Staff and the DPA and responded to written discovery, the parties engaged in settlement conferences on May 9 and 21, 2018, and reached an agreement in principle. The parties' negotiations were thereafter memorialized in a proposed Settlement

Agreement ("Settlement Agreement") and filed with the Commission on June 21, 2018. (Hearing Exhibit 7). The Settlement Agreement, if approved by the Commission, will resolve all issues in this docket.

18. The Settlement Agreement modifies Chesapeake's proposal from its Application to apply IES rates across its entire service territory and includes risk mitigation measures to protect existing ratepayers. Significant provisions of the Settlement Agreement include:

a. for areas outside of Chesapeake's designated Expansion Area, the Settlement Agreement authorizes three new rate classes (Underserved Area - Residential Service ("USA-R"); Underserved Area - General Service ("USA-G"); and Underserved Area - Medium Volume Service ("USA-M")), which Chesapeake may apply when necessary to make expansion projects. The USA rate consists of an additional $25.50 monthly charge that is added to and collected as part of the monthly customer charge;

b. for projects that fail to meet Chesapeake's economic test, the USA rate is a voluntary option for the customer to be served. A potential customer may elect to accept service under the applicable USA rate, elect to pay the required CIAC and accept service under standard tariff rates, or decline to accept service.

c. assessment and collection of the USA rate will be limited to 13 years from when service is initiated (measured by the year when the premises first takes service);

d. for all expansion projects where USA rates are utilized, if Chesapeake's actual annual distribution revenues (the number of new customers multiplied by their annual customer charge plus total annual weather-normalized usage multiplied by the applicable distribution volumetric rate) in the aggregate are less than the assumed annual revenue levels that Chesapeake projected in its project feasibility analysis, then for ratemaking purposes, revenues will be imputed to equal the level of total distribution revenue from customer charges contained in Chesapeake's project feasibility analysis;

e. Chesapeake will include in its next base rate proceeding testimony and support for the methodology for the treatment of administrative and general ("A&G") expenses used in the models used for the project feasibility analyses;

f. Chesapeake may not apply or utilize USA rates in the acquisition of community gas or other existing distribution systems currently supplied by propane unless the Commission approves the application of USA rates to such systems in a future proceeding; and

g. Chesapeake agrees that, no later than 39 months following the date of the final order in this docket approving this Settlement Agreement, it will file with the Commission a confidential comprehensive report detailing the revenues, number of new customers added and associated capital expenditures for each expansion project where USA rates are utilized, and the IRRM or 6Xs reports for each such expansion project.

IV. EVIDENTIARY HEARING

19. On July 10, 2018, the Commission conducted a duly noticed public evidentiary hearing at its regularly-scheduled meeting. No members of the public appeared or otherwise offered comment. At the

start of the hearing, the Chair admitted seven exhibits jointly proffered by the parties into the record without objection.

20. At the evidentiary hearing, the Applicant, Staff and DPA each recommended approval of the Settlement Agreement. In addition, the Commission received testimony regarding the provisions of the Settlement Agreement, including how Chesapeake will implement the USA rates in its areas of its service territory outside of its Commission-designated Expansion Area, the economic analyses Chesapeake will undertake as part of its project feasibility review, and the period over which the IES rates will be assessed. The parties also presented testimony on the risk mitigation provisions of the Settlement Agreement that protect Chesapeake's existing ratepayers against subsidization that may occur if projects fail to achieve the expected rate of return, individually or in the aggregate. Finally, the parties presented testimony as to the regulatory and reporting provisions in the proposed Settlement Agreement that will govern Chesapeake's implementation of the USA rates.

21. Testimony was further presented at the evidentiary hearing from Jason R. Smith on behalf of Staff. Mr. Smith testified that the proposed USA rates are just and reasonable and adoption thereof by the Commission would be in the public interest. Mr. Smith also testified that adoption of the parties' proposed Settlement Agreement would be in the public interest.

V. FINDINGS

22. Section 512(a) of Title 26 provides that "insofar as practicable, the Commission shall encourage the resolution of matters

brought before it through the use of stipulations and settlements," and specifically authorizes the Commission to approve the resolution of matters brought before it by settlements where the Commission finds such resolution to be in the public interest.

23. The Commission has reviewed the Application, the parties' oral and written testimony, and the evidence presented at the evidentiary hearing. We find that the Settlement Agreement is in the public interest and will result just and reasonable rates that will enable Chesapeake to expand the availability of natural gas service throughout its service territory, thereby providing Delaware residents and businesses with greater access to an alternative form of energy. We further find that the provision of the Settlement Agreement that allows imputing revenues if actual revenues are less than projected adequately protects existing Chesapeake ratepayers from subsidizing new customers.

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMISSIONERS:

1. For the reasons given by the parties, the Commission finds that the Settlement Agreement is in the public interest and will result in just and reasonable rates that will enable Chesapeake to expand the availability of natural gas service to residents and businesses located in underserved areas of its service territory outside of the designated Expansion Area in southeastern Sussex County.

2. The Commission hereby approves the Settlement Agreement, a copy of which is attached hereto as Attachment "A".

3. The proposed rates set forth in the Settlement Agreement shall be effective for bills rendered on or after August 1, 2018.

4. Chesapeake is directed to file revised tariff sheets with the Commission within five (5) business days of the date of this Order.

5. The Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary

A T T A C H M E N T "A"

SETTLEMENT AGREEDMENT FILED JUNE 20, 2018

Attachment "A"

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	**)**	
CHESAPEAKE UTILITIES CORPORATION	**)**	
FOR APPROVAL OF NATURAL GAS	**)**	**P.S.C. DOCKET NO. 17-1224**
EXPANSION SERVICE OFFERINGS	**)**	
(FILED DECEMBER 20, 2017)	**)**	

SETTLEMENT AGREEMENT

On this 20th day of June, 2018, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Applicant"), the Delaware Public Service Commission Staff (hereinafter "Staff"), and the Division of the Public Advocate (hereinafter "DPA"), representing all parties to the proceedings in this docket (collectively the "Settling Parties"), hereby propose a settlement ("Settlement Agreement") that, in the Settling Parties' view, appropriately resolves all issues raised in this proceeding.

I. INTRODUCTION

1. On November 5, 2013, the Public Service Commission (the "Commission") entered Order No. 8479 in Docket No. 12-292 that approved a settlement in which the Commission established Infrastructure Expansion Service ("IES") rates for a designated portion of Chesapeake's service territory in southeastern Sussex County, designated as an Expansion Area.[1] As approved by the Commission in Order No. 8479, the IES rates consist of an additional charge, added to and collected as part of Chesapeake's monthly customer charge, applicable to all new residential and small commercial customers in the Expansion Area.

[1] Chesapeake's Expansion Area is defined as approved by the Commission in Order No. 8479 (Nov. 5, 2013), at Attachment A (the parties' Proposed Settlement Agreement), Paragraph 12 and Exhibit C.

2. The Settling Parties recognize that the Expansion Area program and IES rates have been both a success from a public policy perspective, by providing residents and businesses in southeastern Sussex County with access to an alternative and cheaper form of energy (which is presently less expensive than alternative fuels such as propane or fuel oil), and beneficial to the Applicant. As of the end of 2016, the implementation of IES rates allowed Chesapeake to add more than 1,500 new customers within its Expansion Area through capital investments exceeding $8.5 million and the installation of nearly 49 miles of natural gas distribution main, investments the Applicant would not have been able to make under its existing tariff provisions and line extension policies without the additional revenue from the IES rates.

3. On December 20, 2017, Chesapeake filed an application with the Commission pursuant to 26 *Del. C.* §201, §301, and §304 for approval to apply IES rates throughout its service territory when necessary for economic expansion and requested by the customer to be served in lieu of an upfront contribution in aid of construction ("CIAC") or advance.

4. On February 1, 2018, the Commission entered Order No. 9171 pursuant to its authority under 26 *Del. C.* §306(a)(1) and suspended Chesapeake's application pending completion of evidentiary hearings into the justness and reasonableness of applying IES rates across Chesapeake's entire service territory.

5. During the course proceedings in this docket, Chesapeake has responded to formal and informal discovery and data requests and has reviewed the expert witness testimony submitted by consultants on behalf of Staff and the DPA. With the benefit of this information, the Settling Parties met on two occasions and exchanged follow-up information and proposals in an effort to resolve all issues in this docket.

6. As a result of the aforesaid negotiations, the Settling Parties now enter into this Settlement Agreement on the terms and conditions set forth herein because they believe that this settlement will serve both the interest of the public and the Applicant, while meeting the statutory requirement that rates be both just and reasonable.

II. SETTLEMENT PROVISIONS

Rates and Terms

7. For areas of Chesapeake's service territory outside of its currently designated Expansion Area in southeastern Sussex County, the Settling Parties agree to three new rate classes, designated as Underserved Area ("USA") Rates, which Chesapeake may apply when necessary to make expansion projects economic and when voluntarily elected by the customer(s) to be initially served. The new rate classes are Underserved Area – Residential Service ("USA-R"),[2] Underserved Area – General Service ("USA-G"),[3] and Underserved Area – Medium Volume Service ("USA-M").[4] As with the Applicant's existing IES rates, USA rates will consist of an additional monthly charge that is added to and collected as part of the monthly customer charge. The Settling Parties agree to $25.50 per month as the applicable additional charge for each USA rate class. A comparison of the new USA rates as opposed to Chesapeake's existing base rates for the same rate class is shown in the following table:

[2] The USA-R rate will be available to individually metered customers who use natural gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose.

[3] The USA-G rate will be available to any customer using gas for commercial and/or industrial purposes with an annual consumption of less than four thousand (4,000) Ccf.

[4] The USA-M rate will be available to any customer using gas for commercial and/or industrial purposes with an annual consumption generally equal to or greater than four thousand (4,000) Ccf and less than fifteen thousand (15,000) Ccf.

Rate Classification	Monthly Customer Charge	Monthly USA Rate	Total Monthly Customer Charge
Residential Service – 2	$13.50	N/A	$13.50
Underserved Area – Residential Service	**$13.50**	**$25.50**	**$39.00**
General Service	$34.00	N/A	$34.00
Underserved Area – General Service	**$34.00**	**$25.50**	**$59.50**
Medium Volume Service	$80.00	N/A	$80.00
Underserved Area – Medium Volume Service	**$80.00**	**$25.50**	**$105.50**

The Settling Parties agree that Chesapeake's existing IES rates and designated Expansion Area will remain the same until addressed by the Commission in a future rate case.

8. The Settling Parties agree to the following additional terms and provisions related to Chesapeake's implementation of USA rates:

(a) For all projects outside of Chesapeake's existing Expansion Area that require a new main extension to provide service, the economic criteria of the project will first be evaluated using either Chesapeake's Internal Rate of Return Model ("IRRM") or six (6) times net revenue test ("net revenue test"), whichever is applicable under the standard rate schedule. If the project fails to meet the return requirement under the standard tariff rates and economic test, then the project will be evaluated using the revenues estimated with the USA rate for the applicable rate class. If the project is economic using the USA rate, then the Customer may choose either to accept service under the applicable USA rate, elect to pay the required CIAC and pay the standard rate, or decline to accept service.

(b) Assessment and collection of the USA rate shall be limited to 13 years from when service is initiated (measured by the year when the premises first takes service), after which time the premises will be re-classified to standard tariff rates. Chesapeake will annually re-classify customers who have paid USA rates for the requisite 13 years to standard tariff rates at the same time it re-classifies customers to new rate schedules based on their usage.

(c) Any new customer whose premises is eligible to receive service from an existing main extension initially made economic through use of USA rates may elect to pay the USA rate applicable to the customer's rate class for a period of 13 years or decline to accept service.

(d) For all expansion projects where USA rates are utilized, if Chesapeake's actual annual distribution revenues (i.e. the number of new customers multiplied by their annual customer charge plus total annual weather normalized usage multiplied by the applicable distribution volumetric rate) in the aggregate are less than the assumed annual revenue levels projected by Chesapeake in its project feasibility analysis, then for ratemaking purposes, revenues will be imputed to equal the level of total distribution revenue from customer charges contained in Chesapeake's project feasibility analysis (either Chesapeake's IRRM or net revenue test).

(e) Chesapeake may not apply or utilize USA rates in the acquisition of community gas or other existing distribution systems currently supplied by propane unless the Commission approves the application of USA rates to such systems in a future proceeding.

(f) Chesapeake agrees that, no later than 39 months following the date of the final order in this docket approving this Settlement Agreement, it will file with the Commission a confidential comprehensive report detailing the revenues, number of new customers added and associated capital expenditures for each expansion project where USA rates are utilized, and the IRRM or net revenue test reports for each such expansion project. Specifically, the Company will provide the following information in a single Excel file format with all formulae intact for each expansion project where USA rates are utilized:

i. Annual capital investment by FERC account;

- The Company will utilize the average costing filed annually with the PSC for Service and meter costs;

ii. Annual projected customers by rate class used in feasibility analysis (e.g. IRRM or net revenue test);

iii. Actual customers by rate class;

iv. Annual projected gas usage by rate class used in feasibility analysis;

v. Actual usage by rate class;

vi. Annual projected margin revenue by rate class used in feasibility analysis;

vii. Actual annual margin revenue by rate class.

(g) Chesapeake agrees that it will include in its next base rate case testimony and support for its proposed methodology for the treatment of administrative and general ("A&G") expenses in the models it uses for project feasibility analyses.

10. The Settling Parties agree that Chesapeake will file the draft tariff sheets for the USA-R, USA-G and USA-M rate classes attached as Exhibit A hereto with the Commission upon its approval of this Settlement Agreement.

III. ADDITIONAL PROVISIONS

11. This Settlement Agreement is the product of extensive negotiation, and reflects a balancing by the parties of various issues and positions. It is therefore a condition of the Settlement Agreement that the Commission approves it in its entirety without modification, limitation or condition. If this Settlement Agreement is not approved by the Commission in its entirety, this Agreement shall be null and void.

12. This Settlement Agreement shall not set a precedent and no Settling Party shall be prohibited from arguing a different or contrary position or policy before the Commission in any future proceeding. No party to this Settlement Agreement necessarily agrees nor disagrees with the treatment of any particular item, procedure, or the resolution of any specific issue addressed in this Settlement Agreement other than as specified herein, except that each Settling Party

agrees that the Settlement Agreement may be submitted to the Commission for a determination of whether the Settlement Agreement is in the public interest and should be approved. Each Settling Party agrees that it will support approval of this Settlement Agreement before the Commission.

13. The terms of this Settlement Agreement will remain in effect until changed by an order of the Commission, and the Commission shall retain jurisdiction over this Settlement Agreement. All statutory procedures and remedies to ensure that rates are reasonable and just, including without limitation 26 *Del. C.* §304 and §§309-311, are preserved and shall be available to all Settling Parties.

14. This Settlement Agreement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Settlement, provided that the original signature of each Settling Party is delivered to the Commission's offices before its consideration of this Settlement Agreement. Copies of this Settlement Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement Agreement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement Agreement on behalf of the respective Settling Party.

IN WITNESS WHEREOF, intending to legally bind themselves and their successors and assigns, the undersigned parties have caused this Settlement Agreement to be signed by their duly authorized representatives.

Chesapeake Utilities Corporation

Dated: 6/21/2018

By: [signature]

Delaware Public Service Commission Staff

Dated: 6/21/18

By: [signature]

Dr. Rajnish Barua
Executive Director

Division of the Public Advocate

Dated: 6/20/18

By: Adam Slater

RATE SCHEDULE "USA-G"

UNDERSERVED AREA - GENERAL SERVICE

AVAILABILITY

This Rate Schedule is available to any Customer using gas for commercial and/or industrial purposes with an annual consumption of less than four thousand (4,000) Ccf, and who choose to utilize the USA-G rate to make the estimated costs and revenues of the extension to serve economic.

For all projects, outside of the Company's existing southeastern Sussex County, DE expansion area, that require a new main extension to provide service, the economic criteria of the project will be evaluated using the Internal Rate of Return Model ("IRRM") at the Company's standard tariff rates. Should the project fail to meet the return requirement under those conditions, the IRRM will be evaluated utilizing the revenues estimated with USA-G rates. If the project is economic utilizing USA-G rates, the Customer can choose to accept service under the USA-G rates, or pay a Contribution In Aid of Construction ("CIAC").

The premises will be assessed the Underserved Area rate for a period of 13 years, after which time they will be reclassified to the applicable standard tariff residential rate class during the Company's annual rate class review period. All premises receiving service from a main extension that is initially made economic through the use of Underserved Area rates will also be assessed the Underserved Area rate for a period of 13 years.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	$59.50 per month
First 20 Ccf	$0.426 per Ccf
Next 30 Ccf	$0.257 per Ccf
Over 50 Ccf	$0.119 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "USA-G" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within twenty (20) days of their date.

Issue Date:
Effective Date: **July 1, 2018**
Authorization:

EXHIBIT A

RATE SCHEDULE "USA-R"

UNDERSERVED AREA - RESIDENTIAL SERVICE

AVAILABILITY

This Rate Schedule is available to individually metered Customers who use gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose, and who choose to utilize the USA-R rate to make the estimated costs and revenues of the extension to serve economic.

For all projects, outside of the Company's existing southeastern Sussex County, DE expansion area, that require a new main extension to provide service, the economic criteria of the project will be evaluated using the Internal Rate of Return Model ("IRRM") at the Company's standard tariff rates. Should the project fail to meet the return requirement under those conditions, the IRRM will be evaluated utilizing the revenues estimated with USA-R rates. If the project is economic utilizing USA-R rates, the Customer can choose to accept service under the USA-R rates, or pay a Contribution In Aid of Construction ("CIAC").

The premises will be assessed the USA-R rate for a period of 13 years, after which time they will be reclassified to the applicable standard tariff residential rate class during the Company's annual rate class review period. All premises receiving service from a main extension that is initially made economic through the use of Underserved Area rates will also be assessed the Underserved Area rate for a period of 13 years.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	$39.00 per month
First 20 Ccf	$0.621 per Ccf
Next 30 Ccf	$0.362 per Ccf
Over 50 Ccf	$0.175 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "USA-R" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within twenty (20) days of their date.

EXHIBIT A

RATE SCHEDULE "USA-M"

UNDERSERVED AREA – MEDIUM VOLUME SERVICE

AVAILABILITY

This Rate Schedule is available to any Customer using gas for commercial and/or industrial purposes with an annual consumption generally equal to or greater than four thousand (4,000) Ccf and less than fifteen thousand (15,000) Ccf, and who choose to utilize the USA-M rate to make the estimated costs and revenues of the extension to serve economic.

For all projects, outside of the Company's existing southeastern Sussex County, DE expansion area, that require a new main extension to provide service, the economic criteria of the project will be evaluated using the Internal Rate of Return Model ("IRRM") at the Company's standard tariff rates. Should the project fail to meet the return requirement under those conditions, the IRRM will be evaluated utilizing the revenues estimated with USA-M rates. If the project is economic utilizing USA-M rates, the Customer can choose to accept service under the USA-M rates, or pay a Contribution In Aid of Construction ("CIAC").

The premises will be assessed the Underserved Area rate for a period of 13 years, after which time they will be reclassified to the applicable standard tariff residential rate class during the Company's annual rate class review period. All premises receiving service from a main extension that is initially made economic through the use of Underserved Area rates will also be assessed the Underserved Area rate for a period of 13 years.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	$105.50 per month
First 200 Ccf	$0.242 per Ccf
Over 200 Ccf	$0.130 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "USA-M" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within twenty (20) days of their date.

Issue Date:
Effective Date: July 1, 2018
Authorization:

EXHIBIT A